



The Pakistan Credit Rating Agency Limited

# ATLAS INSURANCE LIMITED (AIL)

## IFS RATING REPORT

	<b>NEW</b> <b>[OCT-17]</b>	<b>PREVIOUS</b> <b>[MAR-17]</b>
Insurer Financial Strength (IFS) Rating	AA	AA
Outlook	Stable	Stable

### REPORT CONTENTS

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OCTOBER 2017

## Profile & Ownership

- One of the oldest insurance company of the country; established in 1934 and was acquired in 1980 by Atlas group, listed on Pakistan Stock Exchange.
- AIL's operations are currently carried out from a network of 21 branches.
- Sponsors, Atlas Group (AG), control 78% stake in AIL; the strong financial muscle of AG provides strength to the ownership structure of the company.

## Governance & Management

- AIL's seven member board of directors includes one executive director, while rest are non-executive directors from various group affiliates.
- Mr. Arshad P. Rana, an insurance veteran, has been associated with the company since 2004 as CEO.
- The company's top management consists of qualified and experienced professionals, having long standing relationship with the company.

## Business Risk

- AIL's Premium mix is fairly diversified comprising marine (31%), fire (25%), miscellaneous (25%), motor (19%) and engineering (19%). Miscellaneous mainly comprises of health, terrorism and bond insurance. Marine segment dominates the portfolio as the group auto business contributes significantly.
- Top 10 client concentration stood at 57%, which is significantly high, with 54% of top 10 clients business relating to the group.
- AIL's GPW decreased by 10% in 1H17; due to one-off engineering project written last year.
- Market share stood at 2.8% decreasing from 3.4% in 1H16.
- Loss ratio (33%) increased in contrast with 1H16 (23%) mainly due to increase in fire loss ratio.
- Combined ratio increased to 86% (1H16: 74%), wherein increase was mainly led by higher loss ratio.
- The loss ratio is lower than peers i.e. 48% reflecting positivity for the company
- The company reported an increased underwriting profit of PKR 254mln (1H16: PKR 190mln) translating into a YoY growth of 30%.
- Investment income reduced to PKR 231mln (1H16: PKR 246mln) mainly due to lower gain from disposal of investments.
- The profitability of the company, increased, PBT recorded an increase of 9%.
- AIL's Window Takaful Operations posted GPW of PKR 51mln in 1H17(1H16: PKR40mln).
- The window takaful operations are in net deficit of PKR 0.04mln.

## Business Strategy

- AIL vows to manage sustainable profitability, ensuring consistent improvement in prudent underwriting and risk management. At the same time, the company aims to attain large projects under CPEC as they come.
- Expansion is on cards with four new branches to be added while takaful will have its first own separate branch soon.
- AIL, with launch of window takaful operations, now aims to spur growth through Shariah compliant products as well.

## Financial Risk

- AIL's investment portfolio (PKR 2,635mln) constitutes ~1.4 times of its equity base at 1H17.
- Market Value of Investments at 1H17 was PKR 5,910mln
- Major portion of the book is deployed in liquid avenues (91%), rest invested in strategic equity stocks of group companies
- Liquid portfolio is dominated by equity stocks including equity based mutual funds (75%), government securities, debt securities and money market funds (19%), and bank deposit (15%); investment yield of the book clocked in at 23%
- AIL has an ample liquidity position with the liquidity ratio, providing 6 times cushion to the company's liabilities towards policyholders
- Claim outstanding days have decreased to 281 days at 1H17 (1H16: 314 days), suggesting improvement in claims monitoring system
- Renowned international Reinsurers panel including Swiss Re ('AA-' by S&P),

## RATING RATIONALE

Atlas Insurance is a mid-sized insurance company with a constantly growing underwriting performance as a result of quality insurance business and a stable business mix. The rating reflects financial soundness of the company alongside providing benefits in terms of sustained low-risk captive business, while ensuring sound governance framework. The growth in auto sector in which the group has more exposure goes to the advantage of Atlas Insurance, noticeable growth in non-captive business bodes well for improved footprints in the market. The bottom-line is supplemented by high investment income, ensuring increased profits after tax for the company. AIL, with launch of window takaful operations, now aims to spur growth through Shariah compliant products as well though current volume is low. The rating takes into account robust liquidity profile, providing strong coverage to the company's obligations. The company has a strong panel of reinsurers with favorable treaty terms and prudent risk retention policies.

## KEY RATING DRIVERS

The rating is dependent on sustained improvement in business and financial metrics of the company in line with its relative positioning with in the industry. At the same time, liquidity profile should continue to cushion the liabilities. Improvement in claims management system should translate into reduced claims turnaround time.

## INDUSTRY SNAPSHOT

Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 12%). While conventional segments of fire and motor growth has been driven by private sector credit off take by the banks, the miscellaneous segment has seen largest growth in non-conventional avenues; bond business, health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform.



The Pakistan Credit Rating Agency Limited

**Atlas Insurance Limited (AIL)**

**GENERAL INSURANCE  
Financials [Summary]**

<b>BALANCE SHEET</b>	<b>1HCY17</b>	<b>CY16</b>	<b>1HCY16</b>	<b>31-Dec-15</b>
	<b>6M</b>	<b>Annual</b>	<b>6M</b>	<b>Annual</b>
<b>Investments</b>				
Liquid Investments	2,398	2,622	1,969	2,316
Other Investments	236	236	226	236
	<u>2,635</u>	<u>2,859</u>	<u>2,195</u>	<u>2,553</u>
Insurance Related Assets	936	622	1,040	656
Other Assets	715	796	896	588
<b>TOTAL ASSETS</b>	<u>4,285</u>	<u>4,278</u>	<u>4,130</u>	<u>3,797</u>
Equity	1,922	2,047	1,738	1,846
Underwriting Provisions	1,063	1,078	1,227	845
Insurance Related Liabilities	859	738	777	796
Other Liabilities	441	415	389	310
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<u>4,285</u>	<u>4,278</u>	<u>4,130</u>	<u>3,797</u>

<b>INCOME STATEMENT</b>	<b>1HCY17</b>	<b>CY16</b>	<b>1HCY16</b>	<b>31-Dec-15</b>
<b>Gross Premium Written (GPV)</b>	<b>1,197</b>	<b>2,334</b>	<b>1,336</b>	<b>1,964</b>
Net Premium Revenue (NPR)	619	1,044	485	959
Net Claims	(202)	(269)	(108)	(204)
Net Operational Expenses	(162)	(338)	(187)	(333)
<b>UNDERWRITING RESULTS</b>	<b>254</b>	<b>437</b>	<b>190</b>	<b>422</b>
Investment Income	231	466	246	364
Other Income/ (expense)	5	15	8	12
<b>PROFIT BEFORE TAX</b>	<b>490</b>	<b>919</b>	<b>444</b>	<b>798</b>

<b>RATIO ANALYSIS</b>	<b>1HCY17</b>	<b>CY16</b>	<b>1HCY16</b>	<b>31-Dec-15</b>
<b>Underwriting Results</b>				
Loss Ratio	33%	26%	22%	21%
Combined Ratio	86%	71%	74%	69%
<b>Performance</b>				
Operating Ratio	48%	25%	22%	30%
Investment Yield	23%	24%	0%	15%
<b>Liquidity &amp; Solvency</b>				
Liquidity Ratio – times	6.1	6.9	4.6	5.5

Atlas Insurance Limited (AIL)

Oct-17

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**RATING SYMBOLS & DEFINITIONS:**

**INSURER FINANCIAL STRENGTH (IFS)  
RATING SCALE & DEFINITIONS**

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of the insurance company to meet policyholders and contractual obligations.

RATING SCALE	DEFINITION
<b>AAA</b>	<b>Exceptionally Strong.</b> Exceptionally strong capacity to meet policyholder and contract obligations. Risk factors are minimal and the impact of any adverse business and economic factors is expected to be extremely small.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very Strong.</b> Very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small
<b>A+</b> <b>A</b> <b>A-</b>	<b>Strong.</b> Strong capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be small.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good.</b> Good capacity to meet policyholder and contract obligations. Although risk factors are somewhat high, and the impact of any adverse business and economic factors is expected to be manageable.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderately Weak.</b> Moderately weak with an uncertain capacity to meet policyholder and contract obligations. Though positive factors are present, overall risk factors are high, and the impact of any adverse business and economic factors is expected to be significant.
<b>B+</b> <b>B</b> <b>B-</b>	<b>Weak.</b> Weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors is expected to be very significant.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very Weak.</b> Very weak with a very poor capacity to meet policyholder and contract obligations. 'CCC': Risk factors are extremely high, and the impact of any adverse business and economic factors is expected to be insurmountable. 'CC': Some form of insolvency or liquidity impairment appears probable. 'C': Insolvency or liquidity impairment appears imminent.
<b>D</b>	<b>Distressed</b> Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention and declared insolvent by the regulator.

**Outlook (Stable, Positive, Negative, Developing)**

Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

**Rating Watch**

Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

**Suspension**

It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future, but may stay in abeyance for long. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn**

A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, or c) the rating remains suspended for six months.

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**Name of Issuer**  
**Sector**  
**Type of Relationship**

Atlas Insurance Limited  
 General Insurance  
 Solicited

**Purpose of the Rating**

Independent Risk Assessment

**Rating History**

Date	Rating	Outlook	Action
02-Oct-17	AA	Stable	Maintain
10-Mar-17	AA	Stable	Upgrade
30-Dec-16	AA-	Stable	Maintain
31-Dec-15	AA-	Stable	Maintain
07-Jan-15	AA-	Stable	Maintain

**Related Criteria and Research**

Rating Methodology  
 Sector Research

Insurer Financial Strength Rating  
 Insurance | General - Viewpoint | Nov-16

**Rating Analysts**

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[Rating Team Statement](#)

**Rating Procedure**

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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[Probability of Default \(PD\)](#)

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